

OFFERING CIRCULAR

**TENNESSEE VALLEY AUTHORITY POWER BONDS
FIRST INSTALLMENT SERIES
DUE FROM ONE YEAR TO FIFTY YEARS
FROM DATE OF ISSUANCE**

The Tennessee Valley Authority ("TVA"), a wholly owned corporate agency and instrumentality of the United States of America, may offer from time to time First Installment Series Bonds (the "Bonds" — sometimes called "FISBS") to be issued pursuant to the authority vested in TVA by the Tennessee Valley Authority Act of 1933, as amended (the "Act").

The Bonds, except for those issued as zero coupon Bonds, will be issued at 100 percent of their principal amount, unless otherwise agreed, and will bear interest at fixed or floating rates.

The Bonds are expected to be offered from time to time in installments ("Installments") in an aggregate principal amount not to exceed \$4,000,000,000 at any one time outstanding. At the time of each Installment sale, TVA will determine if such Bonds may be separated ("stripped") into their separate Interest and Principal Components as herein defined.

The Bonds will have maturities of from one year to fifty years. Unless otherwise specified, interest on the fixed rate Bonds will be paid semiannually on February 15 and August 15 and on the maturity date; and interest on the floating rate Bonds will be paid semiannually on March 15 and September 15 and on the maturity date. At the time of each sale TVA will determine if the Installment then being sold will be subject to redemption prior to the maturity date.

At the time of each sale, the purchase price, principal amount, interest rate or interest rate formula, if any, maturity date, redemption period, if any, and certain other terms of such sale will be established by TVA.

The Bonds will be issued in book-entry form only on the book-entry system of the Federal Reserve Banks, in minimum principal amounts of \$1,000 and additional integral amounts of \$1,000 for Bonds issued after January 3, 1994.

TVA is a wholly owned corporate agency and instrumentality of the United States of America. Principal and interest will be payable solely from TVA's Net Power Proceeds as herein defined.

THE BONDS WILL NOT BE OBLIGATIONS OF, NOR WILL PAYMENT OF THE PRINCIPAL THEREOF OR THE INTEREST THEREON BE GUARANTEED BY, THE UNITED STATES OF AMERICA. THE BONDS ARE NOT REQUIRED TO BE REGISTERED UNDER THE SECURITIES ACT OF 1933. ACCORDINGLY, NO REGISTRATION STATEMENT HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. TVA IS NOT SUBJECT TO THE PERIODIC REPORTING REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934.

TVA is offering the Bonds in Installments from time to time through the members of a selling group (the "Members"). The Members have agreed to use reasonable efforts to solicit offers to purchase the Bonds. TVA will pay a concession to a Member for sales of Bonds by such Member not to exceed 0.400 percent of the principal amount or of the purchase price in the case of a zero coupon Bond. TVA also may sell the Bonds directly to any person or entity. No commission will be payable on any sales made directly by TVA. In addition, the Bonds may be sold to any Member for its account and such Bonds may be resold to any person or entity at varying prices as determined by such Member. TVA has agreed to indemnify the Members against certain civil liabilities. See "Selling Group".

Each Member has agreed to use reasonable efforts to facilitate secondary market transactions in the Bonds which it has purchased from TVA. The Bonds will not be listed on any securities exchange, however, and there can be no assurance of a secondary market for any Bonds or that the Bonds described herein will be sold.

TVA reserves the right to withdraw, cancel or modify the offer made hereby without notice. TVA or any Member may reject any offer in whole or in part. See "Description of Bonds" — "Distribution Arrangements".

First Installment Series Bonds Offering Circular Dated May 15, 1995.

No dealer, salesperson or any other person has been authorized by TVA to give any information or to make any representations on behalf of TVA other than those contained in this Offering Circular, TVA's current Information Statement, or any amendment or supplement to any of the foregoing prepared by TVA for use in connection with the offer made by this Offering Circular, the Certificate (as hereinafter defined) applicable to the particular Installment being offered, and TVA's most recent power program quarterly report and, if given or made, such information or representations must not be relied upon as having been authorized by TVA. Neither the delivery of this Offering Circular, the current Information Statement, a TVA power program quarterly report or a Certificate nor any sale of Bonds described herein shall under any circumstances create an implication that the information provided herein is correct at any time subsequent to its date. This Offering Circular does not constitute an offer to sell or a solicitation of an offer to buy Bonds in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

This Offering Circular should be read in conjunction with TVA's current Information Statement and any amendment or supplement thereto or replacement thereof (the "current Information Statement") which is incorporated herein by this reference, in conjunction with TVA's most recent power program quarterly report and in conjunction with the Certificate applicable to the particular Installment being offered. Any statement contained in the current Information Statement, TVA's most recent power program quarterly report or the Certificate applicable to the particular Installment being offered shall be deemed modified or superseded for all purposes of the current Information Statement, TVA's most recent power program quarterly report, the Certificate applicable to the particular Installment being offered and this Offering Circular to the extent that a statement contained in this Offering Circular modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified, to constitute a part of the current Information Statement, TVA's most recent power program quarterly report or the Certificate applicable to the particular Installment being offered. Additional copies of this Offering Circular, copies of the current Information Statement and copies of TVA's most recent power program quarterly report may be obtained upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902, Attention: Vice President and Treasurer, or by calling (615) 632-3366.

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IN CONNECTION WITH CERTAIN UNDERWRITTEN OFFERINGS OF BONDS, ONE OR MORE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

SUMMARY OF OFFERING

The information below is qualified in its entirety by the detailed information appearing in TVA's current Information Statement, TVA's most recent power program quarterly report, the Certificate applicable to the particular Installment being offered and elsewhere in this Offering Circular. Capitalized terms used and not defined herein have the meanings defined in such Information Statement and elsewhere in this Offering Circular.

Issuer	TVA is a wholly owned corporate agency and instrumentality of the United States of America established by the Tennessee Valley Authority Act of 1933, as amended.
Securities Offered	The Bonds are expected to be offered from time to time in Installments in an aggregate principal amount not to exceed \$4,000,000,000 at any one time outstanding.
Offering	The Bonds are being offered in the United States from time to time through the Members. TVA also may sell the Bonds directly. TVA from time to time will establish for the respective Installments issue prices, maturities, interest rates for fixed rate Bonds, interest rate formulas and any minimum or maximum interest rate limitations for floating rate Bonds, prices for the zero coupon Bonds, and other terms that may vary. Such information will be made available through the Members.
Offering Price	The Bonds, except for those issued as zero coupon Bonds, will be issued at 100 percent of their principal amount, unless otherwise agreed.
Interest	Unless otherwise specified, interest on the fixed rate Bonds will be payable semiannually in arrears on each February 15 and August 15 and on the maturity date, and interest on the floating rate Bonds will be payable semiannually in arrears on each March 15 and September 15 and on the maturity date. No periodic payments of interest will be made on zero coupon Bonds.
Redemption	At the time of each sale TVA will determine if the Installment then being sold will be subject to redemption prior to the maturity date. See "Description of Bonds" — "Redemption".
Fiscal Agent	Federal Reserve Banks.
Form of Bonds	The Bonds will be issued and maintained and may be transferred by Holders only on the book-entry system of the Federal Reserve Banks. See "Description of Bonds" — "Book-Entry System".
Stripping	Certain Bonds, as so designated, may be separated ("stripped") into their separate Interest and Principal Components and maintained as such on the book-entry records of the Federal Reserve Banks. The components of each stripped Bond are: each future interest payment prior to the first date, if any, on which the Bond is subject to redemption; and the principal payment, plus any interest payments on or after the first date, if any, on which the Bond is subject to redemption. Each Interest Component and the Principal Component will receive an identifying designation and CUSIP number. See "Description of Bonds" — "Stripping" and "Tax Matters" — "Tax Considerations Applicable to Strips" and "The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness" — "Stripping" in the current Information Statement.

Delivery of Strips	Holders receiving Bonds eligible for stripping, immediately upon their acceptance of such Bonds, may, but are not obligated to, strip some or all of such Bonds and deliver Strips rather than Bonds to investors purchasing Strips. Sales of any such Strips would be at negotiated prices. See “Description of Bonds” — “Stripping.”
Use of Proceeds	The net proceeds received by TVA from the sale of Bonds will be used in the financing of TVA’s power program.
Source of Payment	The interest and principal on the Bonds are payable solely from Net Power Proceeds and are not obligations of, or guaranteed by, the United States of America. See “The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness” in the current Information Statement.
Legality of Investment	<p>Any stripped Interest and Principal Components of the Bonds, see “Description of Bonds” — “Stripping”, could be subject to restrictions or requirements which do not apply to Bonds held in their fully constituted form. Thus, each person or entity is advised to consult with its own counsel with respect to the legality of investment in such Interest and Principal Components. The following describes the legality of investment of Bonds in their fully constituted form. The Bonds described herein:</p> <ul style="list-style-type: none"> • are acceptable as security for all fiduciary, trust, and public funds, the investment or deposit of which shall be under the authority or control of any officer or agency of the United States of America; • are eligible as collateral for Treasury tax and loan accounts; • are among those obligations which national banks may deal in, underwrite and purchase for their own accounts up to ten percent of unimpaired capital and surplus; • are eligible as collateral for advances by Federal Reserve Banks to depository institutions; • are legal investments for federal savings associations and federal savings banks to the extent specified in applicable regulations; • are eligible as collateral for advances by Federal Home Loan Banks for which the Bonds are legal investments; and • are legal investments for federal credit unions. <p>See “Legality of Investment”.</p>
Taxation	<p>The Bonds are subject to various tax consequences. See “Tax Matters” — “Tax Considerations Applicable to Bonds”.</p> <p>For tax consequences with respect to the purchase, ownership or disposition of Strips, see “Tax Matters” — “Tax Considerations Applicable to Strips”.</p>
CUSIP Numbers	CUSIP numbers will be provided on or before the date of delivery of each Installment.

TENNESSEE VALLEY AUTHORITY

TVA is a wholly owned corporate agency and instrumentality of the United States of America established pursuant to the Tennessee Valley Authority Act of 1933, as amended. TVA's objective is to develop the resources of the Tennessee Valley region in order to strengthen the regional and national economy and the national defense. The programs of TVA consist of power and nonpower programs. For the fiscal year ending September 30, 1994, TVA received \$140 million in Congressional appropriations from the federal government for the nonpower programs. The power program is required to be self-supporting from revenues it produces. The Act authorizes TVA to issue Evidences of Indebtedness (as such term is defined under "Description of Bonds") that may only be used to finance its power program.

USE OF PROCEEDS

The net proceeds received by TVA from the sale of the Bonds will be used to assist in financing TVA's power program.

DESCRIPTION OF BONDS

General

The Bonds are to be issued pursuant to authority vested in TVA by the Act and pursuant to the Basic Tennessee Valley Authority Power Bond Resolution adopted on October 6, 1960, as amended on September 28, 1976, October 17, 1989 and March 25, 1992 (the "Basic Resolution"), and the Supplemental Resolution authorizing the Bonds adopted on February 17, 1993, as amended on January 3, 1994 (the "Supplemental Resolution" and together with the Basic Resolution, the "Resolutions"). TVA has entered into a Fiscal Agency Agreement dated as of October 17, 1989 (the "Fiscal Agency Agreement"), with the Federal Reserve Banks, as fiscal agents (together, the "Fiscal Agent"). The Secretary of the Treasury has approved the time of issuance of, and the maximum rate of interest (10 percent per annum) to be borne by, the Bonds in compliance with Section 15d(c) of the Act. (TVA has agreed that the amount of Bonds issued in any one week will not exceed \$100 million except as otherwise agreed upon with the United States Treasury from time to time.) The Bonds represent obligations of TVA payable solely from TVA's Net Power Proceeds and are not obligations of, or guaranteed by, the United States of America.

The Act authorizes TVA to issue and sell bonds, notes and other evidences of indebtedness (hereinafter collectively referred to as "Evidences of Indebtedness") to assist in financing its power program and to refund such Evidences of Indebtedness. Evidences of Indebtedness issued pursuant to Section 2.2 of the Basic Resolution designated as Tennessee Valley Authority Power Bonds are hereinafter referred to as "Power Bonds". The aggregate amount of Evidences of Indebtedness at any one time outstanding is limited to \$30 billion. As of March 31, 1995, TVA had approximately \$26.6 billion of Evidences of Indebtedness outstanding. There are \$1.2 billion of Power Bonds that are being redeemed under in-substance defeasance arrangements and are not considered by TVA to be debt that is subject to the \$30 billion limit.

The summaries herein of certain provisions of the Act, the Resolutions and the Fiscal Agency Agreement do not purport to be complete and are qualified in their entirety by reference to all the provisions of the Act, the Resolutions and the Fiscal Agency Agreement, copies of which may be obtained upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902, Attention: Vice President and Treasurer, or by calling (615) 632-3366.

The Bonds will be Power Bonds as defined above and will be payable as to both principal and interest solely from TVA's Net Power Proceeds, which are defined as the remainder of TVA's Gross Power Revenues (as defined in the Basic Resolution) after deducting the costs of operating, maintaining, and administering its power properties (including multiple-purpose properties in the proportion that multiple-purpose costs are allocated to power) and payments to states and counties in lieu of taxes, but before deducting depreciation accruals or other charges representing the amortization of capital expenditures, plus the net proceeds of the sale or other disposition of any Power Facility (as defined in the Basic Resolution) or interest therein. The Act

also requires TVA to make certain payments to the United States Treasury each year from Net Power Proceeds in excess of those required for debt service as a return on and reduction of the Appropriation Investment (as defined in the Basic Resolution). See “Certain Provisions of the Tennessee Valley Authority Act” — “Payments to the Treasury” in the current Information Statement.

The Bonds rank equally as to the application of Net Power Proceeds with all other Power Bonds. As to the application of Net Power Proceeds, Power Bonds presently rank senior to other Evidences of Indebtedness as to principal and on a parity with or senior to other Evidences of Indebtedness as to interest. At some future date prior to maturity of the Bonds, Evidences of Indebtedness other than Power Bonds may also rank on parity with Bonds as to principal. See “The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness” — “Amendments to the Basic Resolution to Become Effective in the Future” in the current Information Statement. For a further discussion of the application of Net Power Proceeds, see “Certain Provisions of the Tennessee Valley Authority Act” and “The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness” — “Application of Net Power Proceeds” in the current Information Statement. There is no limit on other indebtedness or securities which may be issued by TVA and no financial or similar restrictions on TVA, except as provided under the Act, the Basic Resolution and the Supplemental Resolution. See “The Basic Resolution; Power Bonds, Discount Notes and Other Indebtedness” in the current Information Statement.

The Supplemental Resolution authorizes the issuance of Tennessee Valley Authority Power Bonds First Installment Series in an aggregate principal amount not to exceed \$4,000,000,000 at any one time outstanding. An Installment means the particular Bond or Bonds of the First Installment Series Bonds issued and delivered at any time pursuant to the Supplemental Resolution.

The Supplemental Resolution provides that the maximum effective rate which an Installment may yield shall be a rate yield (effective cost to TVA) not to exceed 10 percent per annum. Further, the maximum maturity date on which the principal and any accrued and unpaid interest shall be due on any Installment issued under the Supplemental Resolution may not be more than 50 years from the date of issuance of the Installment.

The terms and conditions of each Installment will be established by TVA and set forth in a First Installment Series Bond Certificate (“the Certificate”) prior to the issuance of the Installment then being sold. The Certificate will be executed by a person appointed under the Supplemental Resolution. A copy of the Certificate relating to the Installment sold will be provided to each purchaser thereof.

Payment of Principal and Interest

The Bonds are expected to be offered from time to time in Installments in an aggregate principal amount not to exceed \$4,000,000,000 at any one time outstanding. The Bonds will be issued in minimum principal amounts of \$1,000 and additional integral amounts of \$1,000 in book-entry form only through the Federal Reserve Banks as described below under “Book-Entry System”. Unless otherwise specified, interest on the fixed rate Bonds will be payable semiannually in arrears on each February 15 and August 15 and on the maturity date, and interest on the floating rate Bonds will be payable semiannually in arrears on each March 15 and September 15 and on the maturity date. Interest on zero coupon Bonds will be paid on the maturity date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months. The principal amount of each Installment, together with the interest accrued and unpaid thereon, is due in full on the maturity date for such Installments. Payments of principal and interest on the Installments will be made on the applicable payment dates to Holders (as such term is defined under “Book-Entry System”) of the Installments which are Holders as of the close of business on the Business Day preceding such payment dates, by credit of the payment amount to the Holders’ accounts at the Federal Reserve Banks. The Holder and each other financial intermediary in the chain to the beneficial owner will have the responsibility of remitting payments for the accounts of their customers.

In any case in which an interest payment date, a redemption date, or a maturity date is not a Business Day, payment of principal or interest, as the case may be, shall be made on the next succeeding Business Day with the same force and effect as if made on such interest payment date, redemption date, or maturity date.

The term “Business Day” shall mean any day other than a Saturday or Sunday or a day on which banking institutions in New York City are authorized or required by law or executive order to be closed.

Redemption

At the time of each sale of an Installment TVA will determine if such Installment then being sold will be subject to redemption prior to maturity. Any Installment subject to redemption at the election of TVA may be redeemed upon not less than 30 days’ notice broadcast to the Holder of such Installment on the book-entry system of the Federal Reserve Banks, at any time on or after the first permissible call date, as a whole only, at a redemption price equal to 100 percent of the principal amount plus accrued interest, if any.

Book-Entry System

The Bonds will be issued and maintained and may be transferred only on the book-entry system of the Federal Reserve Banks in minimum principal amounts of \$1,000 and additional integral amounts of \$1,000 for Bonds issued after January 3, 1994.

The Federal Reserve Banks will issue the Bonds in book-entry form and will maintain book-entry accounts with respect to the Bonds and will make payments, on behalf of TVA, of interest on and principal of the Bonds on the applicable payment dates by crediting Holders’ accounts at the Federal Reserve Banks.

The foregoing paragraph is a summary of certain provisions of the Fiscal Agency Agreement and does not purport to be a complete statement of all the provisions of such agreement.

Regulations governing the use of the book-entry system for the Bonds are contained in 18 C.F.R. Part 1314, and such procedures, insofar as applicable, as may from time to time be established by regulations of the United States Treasury Department governing obligations of the United States Treasury are contained in Treasury Department Circular No. 300. These regulations and procedures relate primarily to the registration, transfer, exchange and pledge of such obligations. A copy of Circular No. 300 may be obtained upon request from any Federal Reserve Bank, the Department of the Treasury or TVA. The accounts of holders on the Federal Reserve Banks’ book-entry system are governed by applicable operating circulars and letters of the Federal Reserve Banks.

The Bonds may be held of record only by entities eligible to maintain book-entry accounts with the Federal Reserve Banks. Such entities whose names appear on the book-entry records of a Federal Reserve Bank as the entities for whose accounts the Bonds have been deposited are herein referred to as “Holders”. A Holder is not necessarily the beneficial owner of a Bond. Beneficial owners will ordinarily hold Bonds through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. A Holder that is not the beneficial owner of a Bond, and each other financial intermediary in the chain to the beneficial owner, will have the responsibility of establishing and maintaining accounts for their respective customers. The rights of the beneficial owner of a Bond with respect to TVA and the Federal Reserve Banks may be exercised only through the Holder thereof. TVA and the Federal Reserve Banks will have no direct obligation to a beneficial owner of a Bond that is not also the Holder of such Bond. The Federal Reserve Banks will act only upon the instructions of Holders in recording transfers of the Bonds.

The Bonds shall be issued, and shall be deemed to contain a recital that they are issued, pursuant to Section 15d of the Act.

Stripping

An Installment by its terms could be eligible for stripping as described under “The Basic Resolution: Power Bonds, Discount Notes and Other Indebtedness” — “Stripping” in the current Information Statement, and, therefore could be separated (“stripped”) into its Interest and Principal Components and maintained as such on the book-entry records of the Federal Reserve Banks. The components of each stripped Bond are: each future interest payment due on or prior to the first call date (each an “Interest Component”); and the principal payment, plus any interest payments due after the first call date (the “Principal Component”). Each

Interest Component and the Principal Component will receive an identifying designation and CUSIP number on or before the date of delivery of each Installment.

An Installment which is eligible for stripping may be separated into its Interest and Principal Components at any time from the issue date to but not including the first call date at the option of the Holder. A request for separation must be made to the Federal Reserve Bank of New York ("FRBNY"). Currently the FRBNY is not charging the Holder a fee for such services. For a Bond to be stripped into its Interest and Principal Components as described above, the principal amount of the Bond must be a certain minimum principal amount or an integral multiple thereof as set forth in the Certificate. This minimum principal amount is the amount, based on the stated interest rate of the Bonds, that will produce a semiannual interest payment of \$1,000 or multiples thereof. Interest and Principal Components will be obligations of TVA payable solely from TVA's Net Power Proceeds.

Once a Bond has been stripped into its Interest and Principal Components, the Interest and Principal Components may be maintained and transferred on the book-entry system of the Federal Reserve Banks in integral multiples of \$1,000. Payments on the Interest and Principal Components will be made on the applicable payment dates on the related Bonds by crediting Holders' accounts at the FRBNY. At the request of a Holder and on the Holder's payment of a fee (currently the FRBNY's fee applicable to on-line book-entry securities transfers), the FRBNY will restore ("reconstitute") the unmatured Interest and Principal Components of a stripped Bond to their fully constituted form. Holders wishing to reconstitute the unmatured Interest and Principal Components of a stripped Bond to their fully constituted form must (i) produce all outstanding Interest and Principal Components for a Bond, and (ii) comply with all applicable requirements of the FRBNY governing the stripping and reconstitution of securities. Only stripped Bonds with a minimum original principal amount or integral multiples thereof as set forth in the Certificate may be reconstituted.

A Holder who purchases from TVA an Installment eligible for stripping immediately upon acceptance of such Installment may, but is not obligated to, strip some or all of the Installment and deliver Interest and/or Principal Components rather than the Installment to investors purchasing Strips. Under such circumstances, such Holder of the Installment would request the FRBNY to strip the Installment into its Interest and Principal Components.

The offering price of the Interest and Principal Components could be at substantial discounts from their face amounts and, as a result, these components may be subject to greater interest rate volatility than the fully constituted Installment or other obligations bearing current interest. There also may be a less liquid secondary market for such Interest and Principal Components as compared to the secondary market for the fully constituted Installment.

The Interest and Principal Components could be subject to restrictions or requirements with respect to the legality of investment therein which do not apply to Installments held in its fully constituted form. Thus, each person or entity is advised to consult with its own counsel with respect to the legality of investment in Interest and Principal Components.

Distribution Arrangements

The Bonds may be offered for sale from time to time in Installments to Selling Group Members selected by TVA. The sales may be held on a daily basis and there may be more than one sale on a given day. Current quotations for Bonds of varying maturities can be obtained by contacting any Member eligible to participate in the purchase and sale of Bonds. Each eligible Member has entered into a Selling Group Agreement with TVA establishing the terms and conditions for resale of the Bonds and each Member has agreed to use reasonable efforts to facilitate secondary market transactions in the Bonds which it has purchased from TVA. A list of current Members of the Selling Group can be obtained upon written request directed to Tennessee Valley Authority, 400 West Summit Hill Drive, Knoxville, Tennessee 37902, Attention: Vice President and Treasurer, or by calling (615) 632-3366.

LEGALITY OF INVESTMENT

The stripped Interest and Principal Components of the Bonds, see “Description of Bonds” — “Stripping”, could be subject to restrictions or requirements which do not apply to Bonds held in their fully constituted form. Thus, each person or entity is advised to consult with its own counsel with respect to the legality of investment of such Interest and Principal Components. The following describes the legality of investment of Bonds in their fully constituted form.

The Bonds are lawful investments and may be accepted as security for all fiduciary, trust and public funds, the investment or deposit of which shall be under the authority or control of any officer or agency of the United States of America. 16 U.S.C. § 831n-4(d).

The Bonds are acceptable as collateral for Treasury tax and loan accounts pursuant to 31 C.F.R. § 203.14(d)(1).

National banks may deal in, underwrite and purchase the Bonds for their own accounts in an amount not to exceed ten percent of unimpaired capital and surplus. 12 U.S.C. § 24, seventh paragraph.

Federal Reserve Banks may accept the Bonds as eligible collateral for advances to depository institutions. 12 U.S.C. § 347 and 12 C.F.R. § 201.108(b)(13).

Federal savings associations and federal savings banks may, to the extent specified in applicable regulations, invest in the Bonds without regard to limitations generally applicable to investments. 12 U.S.C. § 1464(c)(1)(F).

The Bonds are eligible as collateral for advances by Federal Home Loan Banks to federal savings and loan associations, federal savings banks and other members for which the Bonds are legal investments. 12 U.S.C. § 1430(a) and 12 C.F.R. § 935.9(a)(2).

Federal credit unions may purchase the Bonds. 12 U.S.C. § 1757(7)(E).

The Bonds are “obligations of a corporation which is an instrumentality of the United States” within the meaning of Section 7701(a)(19)(C)(ii) of the Internal Revenue Code for purposes of the 60 percent of assets limitation applicable to domestic building and loan associations.

TAX MATTERS

Tax Considerations Applicable to Bonds

The following discussion describes certain United States federal (and state and local, where specifically noted) income and estate tax consequences of the purchase, ownership, and disposition of the Bonds, without consideration of the particular facts and circumstances of each beneficial owner’s situation. The discussion below does not address the tax consequences associated with stripping a Bond into its Interest and Principal Components or of the purchase, ownership or disposition of an Interest or Principal Component. For a discussion of such tax matters, see “Tax Considerations Applicable to Strips”. In addition, the rules described below and their application to the Bonds are subject to change. Thus, each prospective beneficial owner and any other person or entity may neither construe as legal advice nor rely on the following discussion but rather each is urged to consult its own tax advisor with respect to United States federal and state tax consequences associated with ownership of a Bond, or of an Interest or Principal Component, as well as any consequences arising under the laws of any other taxing jurisdiction.

For purposes of this subsection (“Tax Considerations Applicable to Bonds”), “U.S. Person” means a citizen or resident of the United States, or a corporation or partnership organized in or under the laws of the United States or any political subdivision thereof, or an estate or trust the income of which is includible in gross income for United States tax purposes regardless of its source. The term “U.S. beneficial owner” includes any U.S. Person which is a beneficial owner of a Bond and any person which is a beneficial owner of a Bond to the extent that the income attributable to such Bond is effectively connected with the person’s conduct of a United States trade or business.

U.S. Beneficial Owners

A U.S. beneficial owner is subject to federal income taxation on income on a Bond, and there is no special exemption for a Bond from United States federal estate and gift tax. The Act, however, provides that the Bonds are exempt both as to principal and interest from all taxation now or hereafter imposed by any state or local taxing authority except estate, inheritance and gift taxes. This exemption might not extend to franchise or other non-property taxes in lieu thereof imposed on corporations or to gain or loss realized upon the sale or exchange of a Bond.

Upon a sale or exchange of a Bond, a U.S. beneficial owner generally will recognize capital gain or loss equal to the difference between the amount realized on the sale or exchange and the beneficial owner's adjusted basis for the Bond.

Zero coupon Bonds will, and certain other Bonds may, be issued at a discount from their principal amount. If the excess of the principal amount of each such Bond over its issue price equals or exceeds $\frac{1}{4}$ of 1 percent of the stated redemption price at maturity multiplied by the number of complete years to maturity, such discount will constitute original issue discount ("OID"). Bonds with OID, except for those Bonds with a maturity date of not more than one year from the date of original issuance, are referred to herein as "OID Bonds".

A U.S. beneficial owner of an OID Bond will accrue income on the OID Bond on a constant yield basis in accordance with the OID rules set forth in the Internal Revenue Code of 1986, as amended. Generally, the amount of OID that must be included in taxable income in any year by the initial U.S. beneficial owner of an OID Bond will be equal to the sum of the daily portions of the OID that accrued during each day of the year during which the person owned the OID Bond. The daily portions of OID are determined by allocating to each day of the accrual period, as defined below, a pro rata portion of an amount equal to the adjusted issue price of the OID Bond, also defined below, at the beginning of the accrual period multiplied by the yield to maturity of the OID Bond, determined by compounding at the close of each accrual period and decreased by any interest received during such accrual period. For purposes of these calculations, except as otherwise provided in regulations, (i) the accrual periods will, generally, be of any length and may vary in length over the term of the OID Bond provided that each accrual period is no longer than a year and that each scheduled payment of principal and interest occurs either on the final day of an accrual period or on the first day of an accrual period, and (ii) the adjusted issue price of an OID Bond will be the issue price for the OID Bond increased by the OID accrued in previous accrual periods and decreased by certain payments received in prior accrual periods.

If a U.S. beneficial owner purchases a Bond for an amount in excess of the adjusted issue price but less than the principal amount, this excess (referred to as "acquisition premium") is generally offset against the amount of OID otherwise includible in such owner's taxable income.

A U.S. beneficial owner of a Bond with OID and a maturity date of one year from the date of original issuance, referred to herein as a "Short-Term Bond", may be subject to special rules. An accrual basis owner of a Short-Term Bond (and certain cash method owners) generally would be required to accrue interest into income over the term of each interest period. Other cash basis owners would, in general, be required to report interest income as interest is paid, subject to an election to report income on the accrual basis; if the accrual basis election is not made, certain limitations on interest deductions on indebtedness attributable to a Short-Term Bond may apply and gain on disposition of a Short-Term Bond may be taxable as ordinary income to the extent of accrued interest. Under OID regulations a Short-Term Bond may be treated as issued with OID even if it would not otherwise be treated as issued with OID under the general rules described above. U.S. beneficial owners are urged to consult their tax advisors regarding the application of OID regulations to Short-Term Bonds.

If a Bond does not have OID and a U.S. beneficial owner purchases a Bond for less than its stated redemption price at maturity (or in the case of an OID Bond for less than its revised issue price), in general, that difference will be market discount (unless the discount is less than $\frac{1}{4}$ of 1% of the stated redemption price at maturity of the Bond multiplied by the number of complete years remaining to maturity). In general, under the market discount rules, unless the U.S. beneficial owner elects to accrue market discount in income

currently, any gain on a disposition of a market discount Bond will be ordinary income to the extent of accrued market discount, and deductions for a portion of the interest on any indebtedness incurred or continued to purchase or carry the Bond may be deferred.

A U.S. beneficial owner who purchases a Bond for an amount greater than the amount payable at maturity of the Bond may elect to amortize the bond premium. In the case of a U.S. beneficial owner that makes an election to amortize bond premium or has previously made an election that remains in effect, amortizable bond premium on a Bond generally will be treated as a reduction of the interest income on a Bond on a constant yield basis (except to the extent regulations may provide otherwise) over the term of the Bond. The basis of a debt obligation purchased at a premium is reduced by the amount of amortized bond premium. An election to amortize bond premium will apply to certain other debt instruments acquired at a premium by a U.S. beneficial owner and may have different tax consequences depending on when the debt instruments were issued or acquired. A U.S. beneficial owner should consult a tax advisor before making that election.

Non-U.S. Beneficial Owners

Generally, a non-U.S. beneficial owner will not be subject to United States federal income taxation on interest on a Bond. To qualify for the exemption from taxation, the last U.S. Person in the chain of payment prior to payment to a non-U.S. beneficial owner (the "Withholding Agent") must have received in the year in which such a payment occurs, or in either of the two preceding years, a statement that (i) is signed by the beneficial owner under penalties of perjury, (ii) certifies that such owner is not a U.S. beneficial owner, and (iii) provides the name and address of the beneficial owner. The statement may be made on an Internal Revenue Service Form W-8 or substantially similar substitute form, and the beneficial owner must inform the Withholding Agent of any change in the information on the statement within 30 days of such change. If a Bond is held through a securities clearing organization or certain other financial institutions, the organization or institution may provide a signed statement to the Withholding Agent. However, in such case, the signed statement must be accompanied by a copy of a Form W-8 or substitute form provided by the beneficial owner to the organization or institution holding the Bond on behalf of the beneficial owner.

Generally, any amount which constitutes capital gain to a non-U.S. beneficial owner upon retirement or disposition of a Bond will not be subject to federal income taxation in respect of such amount. Certain exceptions may be applicable and an individual non-U.S. beneficial owner should consult a tax advisor.

The Bonds will not be includible in the federal estate of a non-U.S. beneficial owner.

Backup Withholding

Backup withholding of United States federal income tax at a rate of 31 percent may apply to payments made in respect of the Bonds to beneficial owners who are not exempt recipients and who fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the manner required. Generally, individuals are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients. Payments made in respect of the Bonds to a U.S. beneficial owner must be reported to the United States Internal Revenue Service, unless such U.S. beneficial owner is an exempt recipient or establishes an exemption. Compliance with the identification procedures (described in the preceding section) would establish an exemption from backup withholding for those non-U.S. beneficial owners who are not exempt recipients.

In addition, upon the sale of a Bond to (or through) a broker, the broker must withhold at a rate of 31 percent of the reportable payment, unless either (i) the broker determines that the seller is a corporation or other exempt recipient or (ii) the seller provides, in the required manner, certain identifying information and, in the case of a non-U.S. beneficial owner, certifies that such seller is a non-U.S. beneficial owner (and certain other conditions are met). Such a sale must also be reported by the broker to the United States Internal Revenue Service, unless either (i) the broker determines that the seller is an exempt recipient or (ii) the seller certifies its non-U.S. status (and certain other conditions are met). Certification of the beneficial owner's non-U.S. status usually would be made on Form W-8 under penalties of perjury, although in certain cases it may be possible to submit other documentary evidence. The term broker generally includes all persons who, in the

ordinary course of a trade or business, stand ready to effect sales made by others, as well as brokers and dealers registered as such under the laws of the United States or a state. These requirements generally will apply to a United States office of a broker, and the information reporting requirement generally will apply to a foreign office of a United States broker, as well as to a foreign office of a foreign broker (i) who is a controlled foreign corporation within the meaning of Section 957(a) of the Internal Revenue Code or (ii) 50 percent or more of whose gross income from all sources for the 3-year period ending with the close of its taxable year preceding the payment (or for such part of the period that the foreign broker has been in existence) was effectively connected with the conduct of a trade or business within the United States.

Generally, any amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner's United States federal income tax.

Tax Considerations Applicable to Strips

The following discussion of the United States federal income and estate tax consequences of the purchase, ownership and disposition of Strips is based upon laws, regulations, rulings and decisions which are subject to change. The discussion does not address all aspects of United States federal income and estate taxation that may be relevant to a particular investor in light of its personal investment circumstances or to certain types of investors subject to special treatment under the United States federal income tax laws (for example, banks, life insurance companies and tax-exempt organizations), and generally does not address state and local taxation. Further, the discussion is limited to persons who will hold the Strips as capital assets, and does not deal with United States federal income tax consequences applicable to persons who will hold the Strips in the ordinary course or as an integral part of their trade or business, or as part of a hedging or straddle transaction. Each prospective owner of a Strip is urged to consult with its own tax advisor with respect to the United States federal, state and local tax consequences associated with the purchase, ownership and disposition of a Strip, as well as the tax consequences arising under the laws of any other taxing jurisdiction, and may not construe the following discussion as legal advice.

For purposes of this subsection ("Tax Considerations Applicable to Strips"), "U.S. Person" means a citizen or resident of the United States, or a corporation or a partnership organized in or under the laws of the United States or any political subdivision thereof, or an estate or trust the income of which is includible in gross income for United States tax purposes regardless of its source. The term "U.S. beneficial owner" includes any U.S. Person which is a beneficial owner of a Strip and any person which is a beneficial owner of a Strip to the extent that the income attributable to such Strip is effectively connected with the person's conduct of a United States trade or business.

U.S. Beneficial Owners

A U.S. beneficial owner is subject to United States federal income taxation on the income of a Strip, and there is no special exemption from United States federal estate and gift tax with respect to Strips. Although the Act provides that bonds issued by TVA are exempt both as to principal and interest from all state and local taxation (except estate, inheritance and gift taxes), it is unclear whether this exemption applies to the income on a Strip. If all of the income on a Strip were to be exempt from state and local taxation, the amount of income exempted from such taxation could be in excess of the amount that would have been exempted had the Bonds not been separated into their Interest and Principal Components. It is unclear whether or not this was intended. Therefore, while it is believed that the income on a Strip should qualify for the exemption provided in the Act at least to the extent of the rate of interest payable on the Bonds, there is no controlling precedential authority and, therefore, each owner of a Strip is urged to consult its own tax advisor as to whether or not the income of a Strip qualifies in whole or in part for the exemption provided in the Act.

A U.S. beneficial owner which elects to strip a Bond into its Interest and Principal Components and to dispose of one or more of such Components will be required to include in income all interest and market discount accrued on the Bond to the date of disposition (to the extent that such income has not previously been included in income), and the owner's basis in the Bond will be increased, immediately prior to effecting

the strip, by the amount so included in income. Upon the disposition of a Strip, the U.S. beneficial owner will be required to recognize gain or loss equal to the difference between the amount realized on the disposition of the Strip and the owner's basis in the Strip immediately prior to the sale. For purposes of determining that basis, the owner will be required to allocate its tax basis in the Bond immediately prior to the sale (as adjusted in the manner detailed above) between the Interest and Principal Components based on their respective fair market values on the date of the sale.

A U.S. beneficial owner of a Strip will accrue income on the Strip in accordance with the OID rules set forth in the Internal Revenue Code of 1986, as amended. In this regard, the application of the OID rules to the Strips is subject to significant uncertainty, and therefore purchasers of the Strips are urged to consult with their own tax advisors. Generally, however, it is anticipated that each U.S. beneficial owner of a Strip will be required to include in income, as OID, the difference between (1) the stated redemption price at maturity of the Interest or Principal Component owned by such person (which generally would include all payments to be made on the Component subsequent to the date that the strip was effected or, if later, the date of the owner's purchase of the Component) and (2) the owner's purchase price for the Component (or, in the case of a person who effects a strip but retains one or more of the Components, the portion of the person's basis in the Bond which is allocable to the retained Components, as determined pursuant to the rules set forth in the preceding paragraph). In the case of a Principal Component, however, it is possible that the stated redemption price at maturity may only include the principal payment due on the earliest redemption date if the yield to maturity would be reduced by assuming a redemption of this Component on that date; if this rule applies (which is unclear under current law, since it is not known whether the determination of whether or not there would be a reduced yield to maturity should be made by reference to the Principal Component alone or, instead, by reference to the underlying Bond) and the Principal Component is not, in fact, redeemed on the earliest redemption date, the Principal Component would be treated (solely for purposes of the OID rules) as if it were redeemed on such date and a new debt instrument were issued on that same date for an amount equal to the principal amount of the Principal Component.

The amount of OID on a Strip (determined as set forth above) will be includible on a constant yield basis in the income of a U.S. beneficial owner of a Strip over the life of the Strip (but excluding, in the case of any Principal Component that is subject to the special rule discussed above, the period following the earliest redemption date, and excluding, with respect to certain owners, Strips having a maturity of one year or less from the date of purchase--which Strips would be subject to special OID rules which are discussed below), even in years in which the owner of the Strip does not receive any actual payment. Payments of interest and principal received by a U.S. beneficial owner of a Strip will not be includible in income, and an owner's basis in a Strip will be increased by the amount of OID includible in income by the owner, and reduced by the amount of any interest or principal payments received by the owner. The amount of OID that must be included in income each year by the owner of a Strip will be equal to the sum of the daily portions of the OID that accrued during each day of the year during which the person owned the Strip. The daily portions will be determined by allocating to each day of the accrual period, as defined below, a pro rata portion of an amount equal to the adjusted issue price of the Strip, also as defined below, at the beginning of the accrual period multiplied by the yield to maturity (or yield to call, in the case of any Principal Component that is subject to the special rule discussed above) of the Strip, determined by compounding at the close of each accrual period. For purposes of these calculations, (i) the accrual periods will, generally, be of any length and may vary in length over the term of the Strip provided that each accrual period is no longer than a year and that each scheduled payment of principal and interest occurs either on the final day of an accrual period or on the first day of an accrual period, and (ii) the adjusted issue price of a Strip will be the owner's purchase price for the Strip (or, in the case of a person who effects a strip but retains one or more of the Components, the portion of the person's basis in the Bond which is allocable to the retained Components, as determined pursuant to the rules set forth above), increased by the OID accrued by the owner in previous accrual periods and decreased by any payments received by the owner in prior accrual periods.

TVA is selling the Bonds (and not Strips); it is possible, however, that the Holders of the Bonds may elect to strip the Bonds and sell Interest and Principal Components (as well as Bonds) immediately upon their acceptance of the Bonds. Such Strips might be viewed, for United States federal income tax purposes, as OID

bonds issued by TVA to the purchasers of the Strips. If the Internal Revenue Service were to characterize the transaction in this fashion, the rules set forth above would generally apply, except that (1) the amount of OID on each Strip so sold would be measured, and the adjusted issue price would be determined, by reference to the initial offering price at which a substantial amount of each such Strip was sold, rather than by reference to the price paid by the purchaser for the Strip (not only in the case of an initial purchaser of the Strip, but also in the case of any transferee thereof) and (2) the stated redemption price at maturity would be determined by reference to all payments to be made on the Strip subsequent to the date of the closing relating to the Bonds offered hereby (subject to the special rule, discussed above, that may apply in the case of Principal Components), rather than by reference to the payments to be made subsequent to the owner's acquisition of the Strip. Each U.S. beneficial owner is urged to consult with its own tax advisor as to the likelihood of such a characterization, as well as to the application of the "acquisition premium" and "market discount" rules which would apply if the transaction were to be so characterized.

Special OID rules may apply to Interest or Principal Components that mature in one year or less ("Short-Term Strips"). Accrual basis owners of Short-Term Strips (and certain cash method owners) will generally be required to include OID on a Short-Term Strip in income on a current basis. OID on a Short-Term Strip will be treated as accruing on a ratable basis or, at the election of the owner, on a constant yield basis. Other cash basis owners of Short-Term Strips will generally not be required, but may elect, to include OID in income on a current basis; however, if the accrual basis election is not made, certain limitations on interest deductions on indebtedness attributable to such Short-Term Strips may apply and any gain recognized on disposition of a Short-Term Strip may be treated as ordinary income to the extent of accrued OID. U.S. beneficial owners of Short-Term Strips should consult their tax advisors as to the application of OID regulations to Short-Term Strips.

The OID rules are also unclear as to the treatment of a U.S. beneficial owner who acquires a Principal Component and all the associated Interest Components; it is believed, however, that such a person would not treat the Components as a Bond, but would instead recognize income on each of the Components in the manner detailed above. However, if such a person requests the FRBNY to reconstitute the Components into a Bond and that Bond is then sold to another person, it is believed that the new purchaser would be treated as having acquired a Bond (rather than Interest and Principal Components) with the result that the rules set forth above, under "Tax Considerations Applicable to Bonds", would apply. Each purchaser of a Strip is urged to consult its own tax advisor as to this issue.

Gain or loss recognized by a U.S. beneficial owner on a sale, redemption or other disposition of a Strip will be capital gain or loss if the Strip is held as a capital asset by the U.S. beneficial owner.

Non-U.S. Beneficial Owners

Generally, a non-U.S. beneficial owner of a Strip will not be subject to United States federal income taxation on the income of the Strip. To qualify for the exemption from taxation, the Withholding Agent must have received in the year in which such a payment occurs, or in either of the two preceding years, a statement that (i) is signed by the beneficial owner under penalties of perjury, (ii) certifies that such owner is a non-U.S. beneficial owner, and (iii) provides the name and address of the beneficial owner. The statement may be made on an Internal Revenue Service Form W-8 or substantially similar substitute form, and the beneficial owner must inform the Withholding Agent of any change in the information on the statement within 30 days of such change. If a Strip is held through a securities clearing organization or certain other financial institutions, the organization or institution may provide a signed statement to the Withholding Agent. However, in such case, the signed statement must be accompanied by a copy of a Form W-8 or substitute form provided by the beneficial owner to the organization or institution holding the Strip on behalf of the beneficial owner.

Generally, any amount which constitutes capital gain to a non-U.S. beneficial owner upon retirement or disposition of a Strip will not be subject to United States federal income taxation. Certain exceptions may be applicable and non-U.S. beneficial owners are therefore urged to consult their own tax advisors.

The Strips will not be includible in the federal estate of a non-U.S. beneficial owner.

Backup Withholding

Backup withholding of United States federal income tax at a rate of 31 percent may apply to payments made in respect of the Strips to owners of the Strips that are not “exempt recipients” and that fail to provide certain identifying information (such as taxpayer identification number) to the Withholding Agent at the time and in the manner required. Such backup withholding may also apply in the case of payments made upon the disposition of a Strip. Individuals generally are not exempt recipients, whereas corporations and certain other entities are generally exempt recipients. Compliance with the identification procedures described in the preceding section would establish an exemption from backup withholding for those non-U.S. beneficial owners who are not exempt recipients. Generally, any amounts withheld under the backup withholding rules will be allowable as a refund or credit against the beneficial owner’s United States federal income tax.

SELLING GROUP

The Selling Group Members will receive a concession for Bonds confirmed to them. Certain Selling Group Members and affiliates thereof engage in transactions with and perform services for TVA. Upon TVA’s prior consent, any Member of the Selling Group may purchase, for its account, original issue Bonds.

Payment of the purchase price of the Bonds is required to be made through the Federal Reserve Banks’ book-entry system.

As of the date hereof, Members of the Selling Group are:

BA Securities, Inc.
CS First Boston Corporation
First Tennessee Bank National Association
Goldman, Sachs & Co.
Lehman Government Securities Inc.
Merrill Lynch Government Securities Inc. and
Merrill Lynch, Pierce, Fenner and Smith Incorporated
Morgan Keegan & Company, Inc.
Morgan Stanley & Co. Incorporated
PaineWebber Incorporated
Pryor, McClendon, Counts & Co., Inc.
Salomon Brothers Inc
Smith Barney Inc.

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Any statements in this Offering Circular involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Offering Circular is not to be construed as a contract or agreement with the purchaser of any of the Bonds.

TENNESSEE VALLEY AUTHORITY

By: /s/ JOHN M. HOSKINS
 John M. Hoskins
 Vice President and
 Treasurer

May 15, 1995